

Message Text

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FM SECSTATE WASHDC

TO USCINCEUR-J4/7

C O N F I D E N T I A L STATE 130315

E.O. 11652:GDS

TAGS:MASS, KE, US

SUBJECT:KENYA PROGRAM: FMS CREDITS AND MAP TRAINING

FOLLOWING REPEAT STATE 130315 ACTION AMEMB NAIROBI KENYA

DTD 04 JUN FOR UR INFO

1. IN CONNECTION WITH PROPOSED DELIVERY F5A AND F5B AIR-CRAFT TO KENYA IN THIS CALENDAR YEAR, STATE AND DOD BELIEVE IT ESSENTIAL TO FIRM UP FINANCIAL PACKAGE WHICH WILL SUPPORT THE OPERATION. PRELIMINARY ESTIMATES BY USAF INDICATE COSTS COULD RUN AS HIGH AS \$14 MILLION. WE HOPE THAT BY OBTAINING PART OF AGE AND SPARES FROM IRAN THAT THIS TOTAL COST CAN BE REDUCED.

2. FMS CREDIT. WE HAVE AGREED TO ALLOCATE \$5 MILLION IN FMS GUARANTEED CREDITS TO THE KENYAN PROGRAM IN FY 75. PRESENT PLANNING WOULD ALLOCATE AT LEAST \$5 MILLION IN FMS CREDIT IN FY 76, WITH POSSIBILITY OF INCREASE IF IT APPEARS NECESSARY TO COMPLETE F5 PACKAGE. OF COURSE, ALL FY 76 FIGURES ARE SUBJECT TO CONGRESSIONAL APPROPRIATION.
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3. MAP TRAINING AND TECHNICAL ASSISTANCE. TRAINING OF A

CADRE OF KENYAN PILOTS AND TECHNICIANS WOULD COMMENCE ASAP AFTER LOA IS SIGNED. THIS WOULD BE FOLLOWED BY USAF MOBILE TRAINING TEAMS IN-COUNTRY AND A LIMITED NUMBER OF TECHNICAL ASSISTANCE PERSONNEL TO DEVELOP IN-COUNTRY ON-GOING TRAINING AND TO ASSIST IN INITIAL MAINTENANCE OF THE AIRCRAFT. USAF TEAM WILL DEFINE SPECIFIC REQUIREMENTS DURING F5 SURVEY. PRESENT PLANNING CALLS FOR ALLOCATING ABOUT \$1 MILLION IN MAP FUNDS FOR KENYAN F5 PACKAGE AND NOMINAL ARMY TRAINING PROGRAM. ANTICIPATE THAT ABOVE TRAINING AND TECHNICAL ASSISTANCE CAN BE PROGRAMMED WITHIN THIS AMOUNT. IF THIS CANNOT BE ALLOCATED OUT OF FY 75 FUNDS, WE PROPOSE TO PROVIDE TRAINING AND TECHNICAL ASSISTANCE IN FY 76, WITH TRAINING TO COMMENCE AFTER JULY 1, 1975. OBLIGATION OF FUNDS AND COMMENCEMENT OF TRAINING IS CONTINGENT UPON KENYAN ACCEPTANCE OF LOA FOR AIRCRAFT AND APPROVAL OF CONTINUING RESOLUTION AUTHORITY BY CONGRESS.

4. TERMS. THE MAP TRAINING PROGRAM WOULD BE ON A GRANT BASIS. THE FMS CREDIT WILL BE USG-GUARANTEED CREDIT TO BE PROVIDED AS A LOAN GUARANTY THROUGH THE FEDERAL FINANCE BANK (FFB), WHICH IS UNDER DIRECTION OF SECRETARY OF TREASURY. ONCE KENYAN GOVERNMENT HAS AGREED TO ACCEPT FMS CREDIT, ITS REPRESENTATIVE IN WASHINGTON SHOULD IMMEDIATELY BE AUTHORIZED TO BEGIN DISCUSSIONS WITH U.S. TREASURY. THE LOAN AGREEMENT WOULD NORMALLY THEN BE COMPLETED AND WOULD HAVE TO BE SIGNED BY THE KENYAN REPRESENTATIVE IN WASHINGTON PRIOR TO JUNE 30. AT THE SAME TIME, A SINGLE PROMISSORY NOTE FOR THE ENTIRE AMOUNT OF THE LOAN IS SIGNED. A WRITTEN OPINION OF THE COMPETENT LEGAL ADVISER OF THE APPROPRIATE KENYAN MINISTRY CERTIFYING TO THE VARIOUS AUTHORITIES NECESSARY TO EXECUTE, DELIVER, AND ADMINISTER THE AGREEMENT IS REQUIRED. (THIS DOCUMENT NORMALLY TAKES TIME IN PREPARATION, WHICH PROBABLY SHOULD COMMENCE AS SOON AS KENYA DECIDES TO ACCEPT CREDIT.) A ONE-TIME FEE OF ONE-FOURTH OF 1 PERCENT OF THE PRINCIPAL AMOUNT IS CHARGED FOR THE USG GUARANTY AND IS PAYABLE BY THE BORROWER FROM ITS OWN

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FUNDS AT THE TIME THE LOAN IS SIGNED. ADVANCES AGAINST THE LOAN ARE OBTAINED BY THE BORROWER FORWARDING LETTER REQUESTS THROUGH THE DEFENSE SECURITY ASSISTANCE AGENCY (DSAA) FOR CERTIFICATION AND THEN TO THE FFB. ONLY ONE ADVANCE MAY BE REQUESTED FROM THE FFB EACH MONTH, EXCEPT THAT AMOUNTS OF \$500,000 OR MORE MAY BE REQUESTED AT ANY TIME. A SEPARATE RATE OF INTEREST IS

DETERMINED FOR EACH ADVANCE, BASED ON THE COST OF MONEY

TO THE USG PLUS AN ADDED FRACTION OF A PERCENT (LESS THAN ONE HALF) TO COVER ADMINISTRATIVE FEES. AFTER THE LAST DISBURSEMENT, THE FFB ESTABLISHES A SINGLE FIXED EQUIVALENT INTEREST RATE FOR APPLICATION AGAINST ALL PRINCIPAL OUTSTANDING, IN LIEU OF THE SEVERAL SEPARATE RATES. THERE IS NO COMMITMENT FEE. DISBURSEMENT AND PRINCIPAL REPAYMENT TERMS ARE ESTABLISHED DURING THE INTERAGENCY COORDINATION PROCESS MENTIONED ABOVE. STATE WILL PROPOSE TWO-YEAR GRACE PERIOD BEFORE PAYMENTS WOULD BEGIN, I.E., FIRST PAYMENT WOULD BE JUNE 30, 1977.

5. THIS PROGRAM PROPOSAL HAS BEEN DISCUSSED WITH AMBASSADOR MARSHALL. HE AGREES THAT CHARGE SHOULD DISCUSS THE TERMS OF THE CREDITS WITH KENYANS, STRESSING THE POINT THAT RECEIVING A MAP GRANT FOR TRAINING OF AROUND \$1 MILLION OFFSETS THE NORMAL RATE OF INTEREST (COST OF MONEY TO USG) WHICH THE CREDIT TERMS CALL FOR. CHARGE MUST, OF COURSE, MAKE CLEAR THAT AVAILABILITY OF FY 76 FUNDS STILL SUBJECT TO CONGRESSIONAL APPROVAL. SHOULD GOK ASK TECHNICAL QUESTIONS NOT COVERED BY ABOVE INFORMATION, CHARGE SHOULD SUGGEST THAT FURTHER DETAILS COULD MOST EASILY BE ANSWERED BY TREASURY IN DISCUSSIONS WITH KENYAN EMBASSY REPRESENTATIVE ONCE GOK MAKES BASIC DECISION TO ACCEPT CREDIT. KISSINGER

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